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# Message Text

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14
ORIGIN STR-08

INFO OCT-01 EA-11 ADP-00 COME-00 EB-11 AID-20 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-15 OMB-01 CEA-02 CIAE-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

INT-08 L-03 H-02 PA-03 USIA-12 PRS-01 TAR-02 /151 R

DRAFTED BY STR: JAMCNAMARA: BKH
5/8/73 395-3395
APPROVED BY STR: HBMALMGREN
COLC: DR. DUNLOP
COMMERCE: MR. COOK
STATE/ EA/ J: MR. PIEZ
STATE/ EB: MR. GEWECKE
---------- 011400
R 082123 Z MAY 73
FM SECSTATE WASHDC
TO AMEMBASSY TOKYO

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E. O. 11652: N/ A
TAGS: EIND, ETRD, JA

SUBJECT: JAPANESE IMPORTS OF FERROUS SCRAP

REF : TOKYO 5228

1. IN LIGHT OF AVAILABLE INFORMATION, WE BELIEVE THAT JAPAN CONTRIBUTED SIGNIFICANTLY TO PRICE PRESSURES ON US FERROUS SCRAP MARKET IN DECEMBER, JANUARY, AND EARLY FEBRUARY OF THIS YEAR WHEN JAPANESE USERS APPARENTLY PURCHASED HEAVILY FOR CURRENT AND FUTURE USE. DURING THIS TIME, US PRICES ROSE 30 PERCENT. US WANTS TO AVOID A SIMILAR SITUATION IN THE COMING SEVERAL MONTHS, PARTICULARLY BECAUSE US DEMAND CONTINUES AT RECORD HIGH LEVELS.
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2. PRICE INCREASES APPEAR TO BE CAUSED BY BUNCHING OF JAPANESE PURCHASES RATHER THAN LEVEL OF EXPORT SHIPMENTS. US PRICES DECLINED IN FEBRUARY, MARCH AND ( APPARENTLY APRIL), WHEN FEW NEW PURCHASES WERE MADE BY JAPAN IN SPITE

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OF HIGH LEVELOF EXPORT SHIPMENTS. THUS PATTERN OF JAPANESE PURCHASES IN US, NOT REPEAT NOT US SHIPMENTS TO JAPAN, APPEAR TO HAVE CAUSED SHARP PRICE INCREASES.

3. US EXPORTS TO JAPAN TOTALED 1,499,000 NET TONS IN FIRST QUARTER 1973, EQUAL TO 50 PERCENT OF TOTAL US EXPORTS IN THIS PERIOD.

4. FERROUS SCRAP PRICES ARE AGAIN ON AN UPWARD TREND AFTER DECLINING FROM THE RECENT HIGH IN EARLY FEBRUARY. THE COMPOSITE PRICE OF NO. 1 HEAVY MELTING STEEL SCRAP ( PITTSBURGH, CHICAGO, PHILADELPHIA) INCREASED TO DOLS 50.33 PER GROSS TON ON MAY 1. IT HAD DECLINED TO DOLS 46.00 ON APRIL 13 FROM THE RECENT HIGH OF DOLS 51.00 ON FEBRUARY 2. THE LATEST PRICE IS 43 PERCENT HIGHER THAN A YEAR AGO. THESE PRICE INCREASES ARE OCCURRING AS US SCRAP EXPORTERS ARE TAKING ORDERS FROM JAPANESE BUYERS TO MEET ADDITIONAL JAPANESE REQUIREMENTS THROUGH SEPTEMBER. EXPORTERS ALSO REPORT THAT JAPANESE ARE PREPARING TO REENTER MARKET, PLANNING TO PURCHASE FOR DELIVERY IN SECOND HALF OF JAPANESE FISCAL YEAR ( OCTOBER 1973- MARCH 1974). JAPANESE NOW INDICATE THEY EXPECT TO BUY 4.1-4.2 MILLION NET TONS FROM US IN CY 1973, APPROXIMATELY 76-80 PERCENT MORE THAN IN CY 1972.

5. SHARP PRICE RISES IN FERROUS SCRAP ARE CAUSING HEAVY INFLATIONARY PUSH ON US STEEL PRICES. UNDER CURRENT PRICE CONTROL REGULATIONS US STEEL INDUSTRY BELIEVES IT COULD JUSTIFY SUBSTANTIAL PRICE INCREASES FOR MANY STEEL PRODUCTS AS RESULT INCREASED SCRAP PRICES ALONE. PRICE INCREASES OF THIS MAGNITUDE FOR SUCH A BASIC COMMODITY WOULD SERI-OUSLY IMPAIR ADMINISTRATION' S EFFORTS TO COMBAT INFLATION. IN ADDITION, PRICE PRESSURES ON SCRAP AND SOME LOCAL SHORTAGES THREATEN PRODUCTION AND EMPLOYMENT CUTBACKS IN SEGMENTS OF STEEL INDUSTRY, PARTICULARLY THOSE USING ELECTRIC FURNACES WHERE 98 PERCENT OF FURNACE CHARGE IS
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SCRAP.

6. ADMINISTRATION IS UNDER CONSIDERABLE PRESSURE FROM IRON AND STEEL INDUSTRY TO IMPOSE TEMPORARY EXPORT EMBARGO ON FERROUS SCRAP. ADMINISTRATION BELIEVES THAT SITUATION DOES NOT WARRANT IMPOSING QUANTITATIVE CONTROLS ON EXPORTS AT THIS TIME IF ALTERNATIVE MEASURES CAN BE FOUND TO MODERATE PRICE PRESSURES. AFTER DETAILED ANALYSIS AND HIGH- LEVEL CONSIDERATION, ADMINISTRATION HAS DECIDED TO TAKE FOLLOWING STEPS:

A. MAKE A MAJOR EFFORT TO LOCATE AND PLACE ON MARKET AS SOON AS POSSIBLE GOVERNMENT HOLDINGS OF FERROUS SCRAP;

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B. INITIATE INVESTIGATION OF PROFIT MARGINS AND PRICING POLICIES OF THE MORE IMPORTANT SCRAP BROKERS BY A COST OF LIVING COUNCIL/ INTERNAL REVENUE SERVICE TASK FORCE;

C. REQUEST JAPANESE TO PURCHASE THEIR REMAINING 1973 NEEDS IN A MORE ORDERLY MANNER.

7. EMBASSY IS ACCORDINGLY REQUESTED, DRAWING ON ABOVE, TO ASK JAPANESE GOVERNMENT ( GOJ) TO URGE JAPANESE PURCHASERS OF US FERROUS SCRAP TO SPREAD OUT PURCHASES MORE EVENLY OVER LONGER PERIOD OF TIME. ONE WAY TO DO THIS WOULD BE FOR JAPANESE BUYERS TO PURCHASE NO MORE THAN 10-12 PERCENT OF THEIR EXPECTED ANNUAL REQUIREMENTS IN ANY SINGLE CALENDAR MONTH. WE WOULD WELCOME GOJ SUGGESTIONS IN THIS REGARD. EMBASSY SHOULD STRESS THAT US IS NOT ASKING GOJ AT THIS TIME FOR VOLUNTARY IMPORT RESTRAINTS OR ANY OTHER QUANTITATIVE LIMITATIONS ON IMPORTS FROM US BUT ONLY THAT JAPANESE SCRAP BUYERS SMOOTH OUT PURCHASE PATTERNS.

8. EMBASSY SHOULD NOTE THAT IF SCRAP PRICES CONTINUE TO RISE AS RESULT OF UNWILLINGNESS GOJ AND JAPANESE BUYERS TO COOPERATE IN EFFORT MODERATE PRICE PRESSURES, USG WILL BE UNDER HEAVY PRESSURE TO IMPOSE EXPORT CONTROLS ON SCRAP.

9. WE WOULD APPRECIATE GOJ' S ESTIMATE OF AMOUNT OF SCRAP
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JAPANESE EXPECT TO BUY FOR REMAINDER OF 1973.

10. IF YOU ARE ASKED WHETHER USG IS MAKING SIMILAR REQ-UESTS TO OTHER GOVERNMENTS, YOU SHOULD STATE THAT ANALYSIS OF PROBLEM INDICATES BUYING PATTERN OF JAPANESE PURCHASERS IS PRINCIPAL EXTERNAL CAUSE FOR PRICE INCREASES. JAPAN IS ALSO LARGEST FOREIGN BUYER. IF SIMILAR BUNCHED PURCHASES ARE MADE BY OTHER MAJOR FOREIGN PURCHASERS, USG WILL MAKE SIMILAR APPROACHES TO THEM.

11. SUPPORTING MATERIAL BEING POUCHED. ROGERS

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